

EXHIBIT M

KFx common stock. The warrant is exercisable at \$2.75 per share and expires 5 years from the date of grant. The Company estimated the fair value of the warrant and recorded \$183,965 as marketing, general and administrative expense on the issuance date. The estimated fair value of the warrant was determined using a Black-Scholes option-pricing model using an expected life of 5 years, expected volatility of 73%, a risk free interest rate of 2.9% and a dividend yield of zero.

NOTE 14. STOCKHOLDERS' EQUITY

In July 2001, the Company sold 1,000,000 shares of KFx common stock at a price of \$3.65 per share and issued a warrant to purchase 500,000 shares of KFx common stock with an exercise price of \$3.65 per share expiring three years from the date of issuance, to an institutional investor, resulting in proceeds to the Company of \$3,650,000. In June 2002, the Company reduced the exercise price of the warrant to \$3.00 per share and extended the exercise period of the warrant by an additional two years from the original issuance date. As a result of the modification of the terms of the warrant, the difference between the fair value of the modified warrant and the fair value of the warrant immediately prior to modification was estimated at \$399,446 and is reflected in the Consolidated Statement of Operations as a "Deemed dividend attributable to warrant holder." The fair value of the modified warrant was estimated at \$805,316 using a Black-Scholes option-pricing model using a remaining expected life of 4.12 years, expected volatility of 78%, a risk free interest rate of 4% and a dividend yield of zero. The fair value of the warrant immediately prior to modification was estimated at \$405,870 using a Black-Scholes option-pricing model using a remaining expected life of 2.12 years, expected volatility of 65%, a risk free interest rate of 3.2% and a dividend yield of zero.

In May 2002, the Company entered into an agreement to issue 100,000 shares of KFx common stock and issued a warrant to purchase 112,500 shares of KFx common stock with an exercise price of \$2.75 per share expiring 8 years from the date of issuance, with Eastgate Management Corporation ("Eastgate") in exchange for a \$250,000 full recourse note, which is due on February 1, 2003. The fair value of the common stock on the date of the agreement was \$270,000 and the warrant had an estimated fair value of \$218,337. The estimated fair value of the warrant was determined using a Black-Scholes option-pricing model using an expected life of 8 years, expected volatility of 67%, a risk free interest rate of 4.9% and a dividend yield of zero. In conjunction with the agreement for the sale of common stock and issuance of the warrant, the Company entered into an additional agreement with Eastgate to provide consulting services to the Company over a 10-month period ending February 2003 for \$250,000. As a result of the fair value of the common stock and warrant being more determinable than the consulting services, the Company recorded the common stock and the warrant at their estimated fair value. The difference between the estimated fair value of the common stock and warrant, less the \$250,000 note receivable, was recorded to deferred compensation for consulting services. The Company has the right to offset the note receivable with their obligation for consulting services, as the services are provided. The note receivable and deferred compensation for consulting services are reflected on the Company's Consolidated Balance Sheet in the Stockholders' Deficit section as "Note receivable and other", as the amounts are the result of an equity issuance. The Company is amortizing the original outstanding amount of the note and the deferred compensation for the consultant of \$488,337 over the 10-month consulting services agreement. During 2002, the Company had amortized \$393,248 of the note receivable and the deferred compensation to the consultant to general and administrative expense.

In August 2002, the Company issued 160,000 shares of KFx common stock at a price of \$2.50 per share and warrants to purchase 340,000 shares of KFx common stock, which resulted in cash proceeds to the Company of \$400,000. The warrants have an exercise price of \$2.75 per share and expire 8 years from the date of issuance.

In September 2002, the Company issued 400,000 shares of KFx common stock at a price of \$2.50 per share and warrants to purchase 850,000 shares of KFx common stock, which resulted in cash proceeds to the Company of \$1,000,000. The warrants have an exercise price of \$2.75 per share and expire 5 years from the date of issuance.

During the fourth quarter of 2002, the Company issued 600,000 shares of KFx common stock at a price of \$2.50 per share and warrants to purchase 1,275,000 shares of KFx common stock, which resulted in cash proceeds to the Company of \$1,500,000. The warrants have an exercise price of \$2.75 per share and expire 5 years from the date of issuance.

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